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**The Corporation of the
City of Hamilton**

**INVESTMENT POLICY
&
CASH MANAGEMENT
PRACTICES**

**Treasury Department
May, 1994**

**The Corporation of the City of Hamilton
Treasury**

INVESTMENT POLICY

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The Corporation of the City of Hamilton
Treasury

INVESTMENT POLICY

INTRODUCTION

The City has traditionally maintained a very conservative investment policy restricting its investments to mainly the six Schedule I chartered banks and to Federal Government bonds, and a limited amount to some Provincial and Municipal government instruments. Over the years, the City has utilized departmental policies to guide its internal investment practice.

The development and implementation of a formal investment policy is an integral part of sound and prudent cash management practices especially during the present economic conditions and the volatility of money markets in areas of risk, and potential return on investment. A formal investment policy also serves to increase the level of internal control that the City has over its investment funds. Through the establishment of guidelines within the policy the investment process becomes much more accountable, and conformity with such guidelines also increases the level of safety of investment funds.

It is important to outline to City Council the details of cash management practices and also to outline the policy governing investment of the City's general fund and trust funds. The City's general fund consists of unspent monies available from current funds, capital funds and reserve funds. It does not include any fund available for investment from Hamilton Municipal Retirement Fund (H.M.R.F.), which are separately managed in a diversified portfolio in keeping with the cash management practices which have been approved for that entity.

Cash Management is a very important component of the overall financial management of the City, with the end result being maintenance of a positive cash flow, the reduction of temporary borrowing, the investment of idle funds and the receipt of a steady and competitive rate of return. The documentation of an investment policy will act as an essential means of communication between the City and its financial institutions as well as within the City's staff.

OBJECTIVES

The objectives of the City's investment policy, in order of priority, are:

1. Legality of investments;
2. Preservation of principal;
3. Maintenance of necessary liquidity;
4. Realization of a competitive rate of return;
5. Maintenance of a zero balance in consolidated bank accounts.

1. **Legality of Investments:**

Investment portfolios of municipal governments are restricted to debt securities of the municipal, provincial or federal government and chartered banks, trust companies, or credit unions. Investments that are not covered by the following legislation are unacceptable for municipal purposes. These legal restrictions are found in Section 163 (2) and Section 167 of the *Municipal Act*, and Sections 26 and 27 of the *Trustee Act* (See Appendix I, for excerpts from these Acts). Consequently, the investment policy and all investments made thereunder, must conform to these Acts.

Where the City acts as trustee for the City's Trust Funds, the *Trustee Act* allows investment in additional securities. Included are preferred shares, common shares, and bonds and debentures of corporations. It is being recommended in the proposed guidelines that these trustee account funds be considered for investment purposes similar to other municipal funds with the exception of the Hamilton Public Library "Capital Endowment Trust Fund" and "Special Gift Trust Fund".

The Hamilton Public Library Board have two signed agreements with the Hamilton Foundation, authorizing the Foundation to administer the Library's Capital Endowment Fund and Special Gift Fund for the benefit of the Library, subject to the terms and conditions as outlined in the agreement (See Appendix II, for excerpts from the agreements between the Hamilton Public Library Board and the Hamilton Foundation).

2. **Preservation of Principal:**

Security of the principal amount is of paramount importance for all City officials administering the investment function from the perspective of management and preservation of public funds. The strategies of this objective are threefold:

- (a) diversification of the portfolio and determination of the portfolio mix by general class of securities, such as government bonds, debentures, bankers' acceptances, terms deposits, mortgage papers etc., within the legal boundaries. Diversification will maximize the safety of principal through limiting the exposure to any one investment vehicle;
- (b) maintenance of a substantial portion of the fund in near risk-free investments providing stability of income; and,
- (c) credit analysis of the issuer or guarantor of securities which involves analyzing the credit quality and establishing limits for investment for each issuer.

Current events in the financial markets are studied closely through news media and news articles. The financial health of individual institutions are monitored by reference to their credit rating as provided by the Dominion Bond Rating Service (DBRS) and the Canadian Bond Rating Services (CBRS). This information provides a sound basis for informed decisions which minimize risk exposure and maximize returns consistent with an acceptable degree of risk and liquidity requirements. Updating the approved list of eligible institutions on an annual basis will ensure that the exposure to inferior credit rating is limited and thus the safety of principal is enhanced. (See Appendix III, for DBRS and CBRS Bond rating classifications.)

In order to provide our portfolio with the necessary safety and liquidity levels, it is recommended that the City only invest in chartered banks and trust corporations which receive "A", "AA" or "AAA" ratings for the government bonds and "R1 high, middle or low" ratings for short term papers. Government bond ratings of "A", "AA", or "AAA" and investment instruments rated "A1+", "A1" or "A2" are all considered high quality investments and should, therefore, be acceptable for City investment.

For these reasons, the recommended policy requires that a minimum of 50 percent of the total investments (to a maximum of 100%) be maintained in obligations and securities of the Federal and Ontario governments and six major Schedule I banks. The remaining 50 percent may be invested in eligible Schedule II banks or registered Trust Corporations, other Provincial bonds, Municipal Government bonds and / or financial institutions such as Local Authority Service Ltd. and CHUMS Financial Corporation. (See Appendix IV, for the proposed investment guidelines).

3. Maintenance of necessary liquidity:

Liquidity implies a high degree of marketability of investments as well as a high degree of price stability. Further, a highly liquid portfolio affords the possibility of converting from one security to another to shorten or lengthen the terms of the securities and to take advantage of movements in interest rates.

The predictability of cash flow will partially determine the degree of liquidity required in a portfolio and hence the appropriate investment. Where cash flows are predictable the liquidity of investments may not play as great a role as the rate of return. A portion of the portfolio can be weighted in higher yielding term investment, maturing on dates when funds are not to be disbursed. Where cash flows are less predictable the liquidity of investments will have a greater priority than rate of return. A portion of the portfolio should therefore consist of negotiable and marketable investments to meet unexpected disbursements.

The length of time that surplus funds are available is a strong determinant as to what securities the funds are invested in and the term to maturity. Surplus funds can be classified under three headings:

1. Excess daily Cash Balances;
2. Temporary Surpluses;
3. Long Term Cash Surpluses.

It is therefore of the utmost importance to develop accurate cash flow forecasting which in essence will determine the nature and term of securities to be held in the portfolio. It is also important to allow for investments to be made for appropriate terms, recognizing that in a stable or falling market interest rate yields are higher for long term investments, and to avoid loss of income either through non-investment of funds or the premature liquidation of investments.

Generally, some portion of cash funds is not attached to a specific short-term need, and these funds can be invested in longer term securities. It is most important to have reliable forecasts of the future course of interest rates as these can be matched with the cash flow forecasts for the funds.

Once securities are purchased, it is generally intended that the investments will normally be held until maturity unless a definite reason for selling arises. Reasons would include:

- (a) an unplanned need for cash,
- (b) a fundamental deterioration in the issuer's financial condition, or
- (c) a drastic change of future yield which may require repositioning the maturity term.

4. Realizing a competitive rate of return:

This objective of investment management involves the maximization of the rate of return on cash invested within the constraints imposed by the recommended policy of security of principal and maintenance of liquidity. There is a trade off between the rate of return and safety of capital. However, by altering the average term of the portfolio without sacrificing quality or liquidity, there is scope to earn an acceptable rate of return.

It is the City's intention to avoid all potential losses on the portfolio. However, it is not possible to entirely eliminate the potential for loss. When weighing rate of return against safety of principal the investment policy must assess the City's tolerance for losses on the portfolio. This tolerance is used to determine the correct mix of securities in the City's portfolio which is summarized in Appendix IV.

To ensure that the City receives a competitive rate of return on all invested funds, an ongoing relationship should be established with several financial institutions involved in the investment function. When the City has funds available for investment, several financial institutions, including dealers such as brokerage firms should be contacted whenever possible to provide quotations on the relevant securities, especially for amounts over \$2.5 million. This will ensure that the return received on any given security will be competitive.

Investments should be reviewed on a regular basis to analyze the content of the portfolio along with the transactions and yields as well as the spread between Bankers Acceptances and Treasury Bills over various terms, as market anomalies may present opportunities to improve yields by switching from one instrument to another.

5. Maintaining a zero balance in combined bank accounts:

It is an important consideration to have all funds fully invested while ensuring no bank overdraft position. All cash should be fully utilized, either through paying obligations or investing fully to produce a rate of return. The strategy used is to maintain an effective cash flow. To ensure an effective investment policy, accurate cash flow forecasts should be available for a period of up to one year, ensuring that excess funds are fully utilized and temporary borrowing requirements are limited. Since the forecasts lack the certainty of actual, a minimum or close to the zero balance objective is often achieved.

During the course of conducting City business, it is necessary from time to time to overdraw bank accounts to pay for approved amounts as City funds are fully invested and there may have been delays in the receipt of taxation and other current revenues. On occasions it is more economical to borrow monies to pay off these accounts than to cash short term investments at a lower rate of return.

The efficient and effective utilization of the following objectives will result in further achievement towards the effective management of investments:

- (a) Timely receipts and deposits;
- (b) Timely and scheduled disbursements;
- (c) Ensuring availability of cash to meet commitments;
- (d) Reduction of need to borrow;

In accordance with the *Municipal Act* the City annually passes a by-law to provide financing when insufficient funds are available to meet current expenditures due to the timing of cash flow. Section 187(2) of the *Municipal Act* sets the limits on the amounts that may be borrowed at any one time pursuant to section 187(1) (See

Appendix I). These limits were recently amended by Bill 165, which received Royal Assent on 25th June, 1992 and incorporated into City of Hamilton By-Law No. 93-016. (See Appendix V, for excerpts from the City of Hamilton By-Law No. 93-016).

Cash management is not only a tool for additional income, but provides security of the cash resources of the City and ensures that it is preserved and available when required. Since the cash inflows and outflows of the City do not occur at the same time there may be need to either borrow money internally or externally to pay creditors, or to invest idle cash for a reasonable return until such time as it is needed.

The City's revenues are as follows based on 1993 Consolidated Financial report:

<u>Source of Revenue</u>	<u>Amount</u>	<u>Percentage</u>
Taxation Revenue	\$116,106,666	55.6%
Payment in lieu of taxes	7,445,469	3.6%
Canada grants	308,719	0.1%
Ontario grants	18,617,195	8.9%
Other Municipalities' fees	642,654	0.3%
Proceeds from Debenture Issue	205,000 ⁽¹⁾	0.1%
User charges	34,798,562	16.7%
Miscellaneous other	23,312,240	11.2%
Investment Income	<u>7,388,247</u>	<u>3.5%</u>
Total	<u>\$208,824,752</u>	<u>100.0%</u>

⁽¹⁾\$12,220,000 issued in February 1994.

Exclusive of the revenues noted above, the City also collects taxation on behalf of the Regional Municipality of Hamilton-Wentworth and the Boards of Education for the City of Hamilton in the total additional amount of \$340,820,567.

At the end of 1993 the City has a tax receivable of \$63,841,224 in comparison to a total Reserves and Reserve Fund balance of \$100,298,474, out of which \$4,997,000 was allocated for Capital Budget financing and \$3,031,000 for Current Budget purposes. Taxes receivable are indeed higher than this level at various times of the year when instalments are due etc. The significant outstanding balance of tax receivable affects the investment income, as there are fewer funds available for investment, and the usages of the Reserves and the Reserve Funds are restricted carefully to avoid any shortfall of financing capital projects and/or financing this tax receivable.

Proposed Guidelines for Investments with Government and Financial Institutions:

Proposed policy has been developed in response to the preservation of principal.

1. **Federal and Ontario Governments:**

The upper limits proposed for the holding of direct and guaranteed obligations of the Federal and Ontario governments is 50% and 15% respectively and a minimum holding of these obligations of 10% and 5% respectively, from the perspective of the diversification of the portfolio at a total risk free investment. This will provide an opportunity to invest in municipal debentures and other financial institutions to balance the portfolio with stable and moderate income.

2. **Other Provinces:**

Relying on the credit rating established by the Dominion Bond Rating Services and the Canada Bond Rating Services, it is proposed to restrict the City's investment in other provinces whose ratings are the R-1 low rating and above for short term investments, and A (low) rating and above for long term investments to an amount not to exceed 15% of the total portfolio. Individual investment with any other province other than Ontario should not exceed 10% of the total portfolio up to a maximum of \$10,000,000.

3. **Municipalities:**

Relying on the credit rating of the Canadian Bond Rating Services, a limit is proposed to a maximum of 15% of the total portfolio in municipal securities as a whole. Further, it is proposed that the investment with Ontario municipalities as a group would not exceed 10% of the total portfolio with any one municipality not to exceed 5% of the portfolio up to a maximum of \$3,000,000; and any one municipality outside Ontario will not exceed 3% of the portfolio up to a maximum of \$2,000,000 and in total would not exceed \$5,000,000.

4. **Association of Municipalities of Ontario (AMO) - Local Authorities Services Ltd. and Municipal Finance Officers' Association of Ontario - CHUMS Financial Corporation:**

Section 167 (3) of the *Municipal Act* enables a municipality to enter into an agreement with any other municipalities for the joint investment of funds held in general funds, capital funds or reserve funds by those municipalities or an agent of those municipalities. The joint investment of funds within the City as well as the pooling of funds between municipalities may allow the City to realize economies of scale and hence earn more competitive rates for the City's investment funds. It will also offer some other advantages such as diversification of portfolio, security of principal, service of a professional fund manager, etc.

Authorization for joint investment pools was obtained in item 25, of the TWENTY-FOURTH Report of the Finance and Administration Committee adopted by City Council at its meeting held 1992 December 8 as follows:

"That the Treasurer be authorized to complete any documents necessary to participate in joint investment pools authorized under the *Municipal Act* or other enabling Provincial legislation."

Local Authority Service Ltd. and CHUMS Financial Corporation which were established in 1993 are wholly owned by the Association of the Municipalities of Ontario (AMO) and the Municipal Finance Officers' Association of Ontario. These organizations are designed to serve all Ontario municipalities. Each pool has been especially created to help the municipal Treasurer meet the City's investment objectives. The types of investments which may be made by Ontario municipalities are limited by law, and a municipal joint-investment fund must operate within these limits. The directors of these pooled funds comply fully with the requirements of the *Municipal Act* and provide diversification with high quality, credit-worthy, fixed income investments.

It is proposed that the investment with each of these two organizations be limited to a maximum of 20% of the City's portfolio subject to a limit of 10% of the issuer's portfolio on the date of purchase.

5. Financial Institutions:

The upper limits proposed for the holding of direct and guaranteed obligations of the six major Schedule I banks are 80%, with a minimum holding of these obligations at 35% from the perspective of diversification of the portfolio with minimum credit quality of "A (high)" or "R-1 (low)". Further, the limitation has been placed at a maximum of 25% of the portfolio with any of these six chartered banks.

A further limitation is proposed on Schedule II banks and Trust Corporations at a maximum of 10% of the portfolio for individual investments and 25% of the portfolio in the group of Schedule II banks and Trust Corporations with a minimum credit quality of "AA" credit rating or "R-1 (middle).

The City shall not invest in any security offered by a borrower with a bond rating lower than "A" or "R-1 (low)" for DBRS and "A" and "A2" for CBRS credit ratings whether it be a long term bond or short term paper of a Province of Canada or a Municipality in Canada, or financial institutions. It is also proposed that the City shall also not invest with any Credit Union, as defined in the *Credit Unions and Caisses Populaires Act*.

Limitations established for the portfolio on any individual issuer basis should reflect the relative safety of each issuer. These limits are stated in percentage and some are also in absolute value terms.

Term of Investment Instruments:

The term of an investment should be dictated by cash flow requirements. However, the number of investments in an entire portfolio coupled with the uncertainty surrounding cash flow forecasts suggest that exact matching between the investment maturities and cash flow requirements is usually impractical. The term of investments will be altered within reason to take advantage of market opportunities. It is appropriate on occasions to buy "odd-dated bills", by buying between terms (i.e. 5½ month Treasury Bills instead of 6 month bills) as it may generate better yields.

If the expectation is for rising interest rates, the term should be shortened to capture the higher rates on reinvestment. Conversely, for declining rates, the investment term should be extended to lock in the higher rates for the full term that the cash is available for investment. To do that, strip bonds may be purchased which are sold at a discount and mature at the full face value. Under the declining interest rate scenario, long term strip bonds will give the City the best alternative, but when rates are at the low end of the spectrum, a strip bond forces the City to lock in a low reinvestment rate for the life of the bond. The other aim is to have a portfolio "balanced" in light of the various needs addressed by the investment policy.

The following is a list of restrictions proposed on the term of securities:

- (a) There shall be no term restrictions on securities offered by or unconditionally guaranteed by the Government of Canada or the Province of Ontario.
- (b) The term shall not exceed 10 years for eligible Ontario Municipalities.
- (c) The term shall not exceed 5 years for Schedule I Canadian chartered banks.
- (d) The term shall not exceed 3 years for eligible Provincial Governments other than the Ontario Government, financial institutions such as Local Authority Service Ltd, CHUMS Financial Corporation, and eligible Schedule II banks and Trust Corporations with "AA" or R-1 (middle) credit ratings.

Safe keeping of securities and Investment Transactions:

The first major administrative responsibility associated with the implementation of the City's investment policy is the safekeeping of assets. The City maintains the physical custody of

all long term government bonds, securities, or certificates with the City's banker in a safe deposit box specifically insured under a policy (Crime) at a value (presently at \$3 million with a \$10,000 deductible), with the insurance policy reviewed annually. The City's short term investments are maintained by the issuer of instruments and all purchases of short term and long term investments are confirmed to the City by the issuing institutions. These short and long term investments are reviewed, tested and confirmed by the City's external auditor annually.

The following additional measures are proposed from the perspective of internal control:

The City Treasurer shall be authorized to enter into an agreement with the City's banker, presently the Canadian Imperial Bank of Commerce, for the safe keeping and custody of securities or certificates and securities lending, and to execute and sign documents on behalf of the City and perform all other related acts in the day to day operation of the investment program. The Treasury Department is in the process of reviewing the custodial arrangement and different fee structures with the City's banker.

Securities Settlement & Safekeeping:

The majority of bonds and equities in the Canadian marketplace are kept in a book base environment with The Canadian Depository for Securities (CDS). Exceptions include money market instruments, some private placements, municipal bonds, some mortgage backed securities, and stocks with dividend reinvestment plans. The Uniform Settlement Rule, recently adopted by Canada's self-regulatory organizations, requires that all CDS eligible securities transactions be affirmed and settled through the book-entry system.

The Canadian banks, trust companies, and brokerage firms each own one-third of CDS. The system is regulated directly through the provincial securities commissions and indirectly by the Office of the Superintendent of Financial Institutions (OSFI).

CIBC represents the interests of its safekeeping customers in the ongoing development of the Canadian book base system. All bearer, client name and CIBC nominee name registered Canadian securities will be physically held in the bank vault.

CIBC presently utilizes several means of communication to receive and transmit trade information to and from the City. These include fax, tested telex, FMCnet and COMM*STAR.

Reporting:

The following reports will be provided to meet the City requirements.

Advices

- detailed transaction credit/debit advices;
- detailed income credit advices;
- detailed notices on all corporate activity;

COMM*STAR Reports

COMM*STAR in its current form has transaction, anticipated income and holding reports through an on-line, real time system. The new COMM*STAR system will produce various reports including: **Trade Status and Trade Settlement** (lists all trade details including gains/losses, book value, fx rate, cash debits/credits, etc.); **Portfolio Summary** (book value, market value, gains/losses, divided by class); **Portfolio Valuation; Accrued Income; Anticipated Income; Cash Flow Forecast and Brokerage Commissions.**

The new **COMM*STAR** system will allow the **City** to choose which accounts and what time period a report is to cover (eg. one week, one month, three months, etc.). **COMM*STAR** will provide the **City** with the information needed to monitor its trading activity and portfolio holdings.

COMM*STAR

COMM*STAR provides an electronic link between the Treasury Department, the Canadian Depository for Securities (CDS), and the bank Securities Department. Through an integrated electronic system, **COMM*STAR** opens a "window" to investor's securities transactions and holdings.

COMM*STAR is electronically supplied with broker-reported trade information from CDS for domestic Canadian bond and equity transactions. Money market and non-eligible CDS trades must be input directly into **COMM*STAR** by the **City** or **bank**. These trades are not currently reported to CDS.

COMM*STAR will allow the **City** to:

- monitor the status of trades (settled, failed, pending) through on-line access to the transaction file thereby saving time and excess paper storage
- view holdings positions in a real time environment

- review anticipated income and cash flow reports to supplement cash management strategies
- down load files to PC to create own reports
- a messaging system with the various mail categories (i.e. customer service, corporate actions, income settlements, general mail, foreign exchange, etc.)
- print from our extensive selection of reports which are available at any time
- view on-line information from our securities master file, such as market prices, dividend ex, record and payment dates, fixed income payment dates, and foreign exchange rates; and
- use pop-up windows to access external data and help functions.

Anticipated future enhancements of **COMM*STAR** include:

- complete cash and securities consolidated reporting facility
- corporate action notices
- general ledger functions
- extensive reporting functionality; and
- local processing.

Securities Lending Overview

On behalf of the City the bank will negotiate loans with borrowers, simultaneously exchange the loaned securities for high quality collateral, monitor the level of collateral throughout the term of the loan, provide regular reporting and recall the City's securities when you wish to terminate the loan.

When securities are lent out the bank maintains the internal record-keeping therefore the borrower is unaware of which institution has lent the securities. While the securities are out on loan the City remains the beneficial owner. All dividend and interest income will be credited to the City's cash account on payable date even when the security is out on loan.

Collateral

The Bank is committed to ensuring that the City's securities on loan are not placed at unreasonable risk. Bank marks to market daily to ensure that each borrower has provided sufficient collateral. When collateral does not meet the 105% requirement, the borrower is contacted immediately. If a borrower is notified before 11:00 EST they must provide additional collateral by the end of business that day. Those notified after 11:00 EST are required to deliver additional collateral by the next business day.

The Bank follows the Current OSFI guidelines which recommend that each securities loan have collateral equal to 105% of the market value of the loan. In calculating the collateral requirement bank does include both market value and the accrued income.

Under bank's securities lending program, they will accept only high quality forms of collateral. These include

- cash;
- Government of Canada and Provincial Bonds;
- Government of Canada Treasury Bills;
- convertible debentures; and
- letters of credit.

Securities Trading

Securities on loan remain available for trading providing the required notice period is respected. In order to initiate the recall process, the Securities Lending desk must be informed as soon as possible on the trade date of any sale of securities that are out on loan.

City of Hamilton Protected From Borrower Risk

The Bank will provide the City with an indemnity against borrower default. In the event that a borrower defaults on a loan and collateral is not sufficient to cover the lenders position, bank will ensure that the City is fully compensated either by purchasing the securities in the market or through a cash payment.

Prior to entering into securities lending, a securities lending agreement must be executed by bank and the City. Similarly, bank has executed agreements with each of the qualified borrowers which outline the terms and conditions associated with borrowing securities.

As an agent for the City, bank will:

- select brokers within stringent guidelines;
- contact quality brokers;
- negotiate rates;
- monitor loans;
- mark to market the collateral on a daily basis;
- collect fees from brokers;
- collect dividends/interest and credit the City's account on payable date; and
- provide the City with appropriate reporting statements both for outstanding loans and revenue earnings on the portfolio.

Benefits to the City will include:

- earning additional income;
- reduction in administrative responsibility and system resources;
- direct access to bank's borrowers network; and
- retain all rights to ownership dividends and interest.

Administrative Procedures:

- (a) The City's general funds will be invested by the Manager of Budgets and in his absence by one of the following Treasury Department officials:
 - (i) Revenue Analyst
 - (ii) Manager of Revenue;
 - (iii) Supervisor of Sundry Revenue;
- (b) All investments must be authorized by any one of the officials noted in (a) above and subsequently acknowledged by the City Treasurer and in his absence, by the Acting City Treasurer.
- (c) The Manager of Budgets will maintain an appropriate record of the portfolio.

Operating Procedures:

The day to day operating procedures such as payment of invoices, daily collection of cash, reporting of bank and cash deposits, preparation of reconciliation of portfolio, year end interest accruals, etc., are maintained in the various sectional job descriptions.

Conclusion:

The guidelines provided in this policy reflect the desire to ensure foremost the preservation and liquidity of City funds, while balancing the risk with best rate of return.

The City Treasurer is directed to act with prudence in managing City money and to take all actions necessary in the interest of preserving capital while earning a competitive rate of return.

NRA

11-May-94

MUNICIPAL ACT, Chapter M.45,
Revised Statutes of Ontario (R.S.O.) 1990,

Reserve Funds

163. (1) Every municipality as defined in *Municipal Affairs Act* and every board, commission, body or local authority established or exercising any power or authority with respect to municipal affairs under any general or special Act in an unauthorized township or in unsurveyed territory may in each year provide in the estimates for the establishment or maintenance of a reserve fund for any purpose for which it has authority to spend funds, but if the approval of the council is required by law for a capital expenditure or the issue of debentures of or on behalf of the local board, the approval of the council of a provision in the estimates of local board for a reserve fund shall be obtained.

Investments Income

- (2) The money raised for a reserve fund established under subsection (1) shall be paid into a special account and may be invested in such securities as a trustee may invest in under the *Trustee Act*, and the earnings derived from the investment of such money form part of the reserve fund.

ACCOUNTS AND INVESTMENTS

Definition

167. (1) For the purpose of this section, "municipality" includes a metropolitan, regional or district municipality.

Investment of money not immediately required

- (2) Where a municipality has moneys not required immediately by municipality, such moneys may be,
- (a) invested in,
- (i) bonds, debentures, or other evidence of indebtedness of or guaranteed by the Government of Canada, the Province of Ontario, or any other province of Canada,

MUNICIPAL ACT, Chapter M.45,

167. - (2) - Continued

- (ii) debentures, notes or guaranteed investment certificates of or term deposits with any trust corporation or loan corporation that is registered under the *Loan and Trust Corporation Act*,
 - (iii) term deposits, deposit receipts, deposit notes, certificate of deposit, acceptances and other similar instruments issued, accepted, guaranteed or endorsed by any bank listed in Schedule I or II to the *Bank Act* (Canada),
 - (iv) promissory notes of a metropolitan, regional or district municipality, or of a municipality as defined in the *Municipal Affairs Act*, or of a conservation authority established under the *Conservation Authorities Act*,
 - (v) term deposit accepted by a credit union as defined in the *Credit Unions and Caisses Populaires Act*; or
- (b) advanced to the capital account of the municipality for the purpose of interim financing of capital undertakings of the municipality,

but the investments or advances to the capital account become due and payable by the day on which the money is required by the municipality, and all interest therein shall be credited to the fund from which the money is invested or advanced. R.S.O. 1990, c. M.45, s. 167

Combined investments

- (3) A municipality may combine and invest money held in the general fund, the capital fund and a reserve fund.

Limitation

- (4) Money invested under subsection (3) shall be invested only in the securities named in subsection (2).

MUNICIPAL ACT, Chapter M.45,

167. - Continued

Allocation

- (5) Earnings from the combined investment shall be credited to the separate funds in proportion to the amount invested from those funds. 1992, c. 15, s. 10.

TEMPORARY LOANS

Current borrowings

- 187.-(1) A council may by by-law either before or after the passing of the by-law for imposing the rates for the current year authorize the head and treasurer to borrow from time to time by way of promissory note or bankers' acceptance such sums as the council considers necessary to meet, until the taxes are collected and other revenues are received, the current expenditures of the corporation for the year, including the amounts required for sinking fund, principal and interest falling due within the year upon any debt of the corporation, school purposes, special rates purposes, and for any board, commission or body and other purposes for which the corporation is required by law to provide. R.S.O. 1990, c. M. 45, s. 187(1).

Limit at any one time

- (2) The amount that may be borrowed at any one time for the purposes mentioned in subsection (1), together with the total of any similar borrowings that have not been repaid, shall not, except with the approval of the Municipal Board, exceed from January 1st to September 30th of the year, 50 per cent of the total, and from October 1st to December 31st, 25 per cent of the total of the estimated revenues of the corporation as set forth in the estimates adopted for the year. R.S.O. 1990, c. M.45, s. 187 (2); 1992, c. 15, s. 15 (1).

TRUSTEE ACT, Chapter T.23
Revised Statutes of Ontario (R.S.O.) 1990,

Authorized investments:

26. A trustee may invest any trust money held in the classes of securities mentioned in this section, but only if the investment is in other respects reasonable and proper,

Government and municipal securities

- (a) bonds, debentures or other evidences of indebtedness,
 - (i) of or guaranteed by the Government of Canada,
 - (ii) of or guaranteed by the government of any province of Canada,
 - (iii) of or guaranteed by the Government of the United Kingdom,
 - (iv) of any municipal corporation in Canada, including debentures issued for public, separate, secondary or vocational school purposes, or guaranteed by any municipal corporation in Ontario, or secured by or payable out of rates or taxes levied under the law of any province of Canada on property in such province and collectible by or through the municipality in which such property is situated;

Mortgages on real estate

- (b) first mortgages, charges or hypothec upon real estate in Canada;

Canada subsidy bonds

- (c) bonds, debentures or other evidences of indebtedness of a corporation that are secured by the assignment to a trustee of payments that the Government of Canada has agreed to make, if such payments are sufficient to meet the interest as it falls due on the bonds, debentures or other evidences of indebtedness outstanding and to meet the principal amount of the bonds, debentures or other evidences of indebtedness upon maturity;

Loan corporation debentures

- (d) debentures of any loan corporation that is registered under the *Loan and Trust Corporations Act*;

TRUSTEE ACT, Chapter T.23

Trust corporation guaranteed investments

- (e) guaranteed investment certificates of any trust corporation that is registered under the *Loan and Trust Corporations Act*;

International Bank for Reconstruction and Development

- (f) bonds, debentures or other securities issued or guaranteed by the International Bank for Reconstruction and Development established by the Agreement for an International Bank for Reconstruction and Development approved by the *Bretton Woods and Related Agreements Act* (Canada), if the bonds, debentures or other securities are payable in the currency of Canada or the United States of America;

Banks

- (g) deposit receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued or endorsed by any bank listed in Schedule I or II to the *Bank Act* (Canada);

Credit union term deposits

- (h) term deposits accepted by a credit union as defined in the *Credit Unions and Caisses Populaires Act*, R.S.O. 1980, c. 512, s. 26.

Other investments authorized:

- 27.-(1)** In addition to the investments authorized by section 26, a trustee holding trust money for investment may invest such money in the following classes of investments, but only if the investment is in other respects reasonable and proper and is made in accordance with subsections (2), (3) and (4),

Bonds secured by trust deed

- (a) bonds, debentures, debenture stock or other securities of any corporation incorporated by Canada, or by any province of Canada, or by any former province now forming part of Canada, that are secured by a mortgage or hypothec to a trust corporation either singly or jointly with another trustee upon improved real estate of such corporation or other assets of such corporation of the classes mentioned in this section or in section 26;

TRUSTEE ACT, Chapter T.23

Provincial subsidy bonds

- (b) bonds, debentures or other evidences of indebtedness of a corporation that are secured by the assignment to a trustee of payments that are payable, by virtue of an Act of a province of Canada, by or under the authority of the province, if such payments are sufficient to meet the interest as it falls due on the bonds, debentures or other evidences of indebtedness outstanding and to meet the principal amount of the bonds, debentures or other evidences of indebtedness upon maturity;

Corporation securities

- (c) bonds, debentures or other evidences of indebtedness of a corporation that has paid,
 - (i) a dividend in each of the five years immediately preceding the date of investment at least equal to the specified annual rate upon all of its preferred shares, or
 - (ii) a dividend in each year of a period of five years ended less than one year before the date of investment upon its common shares of at least 4 per cent of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid;

Preferred shares

- (d) preferred shares of a corporation that has paid,
 - (i) a dividend in each of the five years immediately preceding the date of investment at least equal to the specified annual rate upon all of its preferred shares, or
 - (ii) a dividend in each year of a period of five years ended less than one year before the date of investment upon its common shares of at least 4 per cent of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid;

TRUSTEE ACT, Chapter T.23

Common shares

- (e) fully paid common shares of a corporation that, in each year of a period of seven years ended less than one year before the date of investment, has paid a dividend upon its common shares of at least 4 percent of the average value at which the shares were carried in the capital stock account of the corporation during the year in which the dividend was paid.

Limitation

- (2) No investment shall be made under this section that, at the time of making such investment, would cause the aggregate market value of the investments made under this section to exceed 35 per cent of the market value at that time of the whole trust estate, and, if in any estate or trust the trustee has retained, under the authority of the trust instrument, investments that had been acquired by the testator or settlor and that come within any of the classes authorized by this section, such investments shall be deemed to have been made under this section.

Change in market values

- (3) No sale or other liquidation of any investment made under this section shall be required solely because of any change in the ratio between the market value of such investments and the market value of the whole trust estate.

Market values

- (4) In determining market values for the purpose of this section, a trustee may rely upon published market quotations as to those investments for which such quotations are available, and upon such valuations of other investments as in the trustee's judgment seem fair and reasonable according to available information. R.S.O. 1980, c. 512, s.27.

THIS AGREEMENT made this 19th day of February, 1981.

B E T W E E N :

THE HAMILTON PUBLIC LIBRARY BOARD

Hereinafter called
"the Library"

- and -

THE HAMILTON FOUNDATION

Hereinafter called
"the Foundation"

WHEREAS the Library desires to create a Capital Endowment Fund to receive donations from the public;

AND WHEREAS the income and capital of the Capital Endowment Fund is to be used for the general purposes of the Library, including its branches and related operations;

AND WHEREAS the Library has requested the Foundation to accept, hold, invest and administer the assets in the Library's Capital Endowment Fund;

AND WHEREAS the Foundation has agreed to administer the Library's Capital Endowment Fund for the benefit of the Library, subject to the following terms and conditions:

1. THE FUND

The Foundation shall create and set up a Special Capital Fund as a designated fund to be known as "the Hamilton Public Library Capital Endowment Fund", (hereinafter referred to as "the Fund"), and will encourage members of the public to make gifts and bequests to the Fund.

2. PROMOTION BY THE LIBRARY

The Library shall also promote and encourage the making of gifts and bequests to the Fund.

3. TREATMENT OF GIFTS AND BEQUESTS TO THE FUND

(a) The Foundations may receive gifts to the Fund in which the donors will have directed that the amounts given shall be added to the capital of the Fund, the net income from which shall be used as required by the Library for the purposes of the Library, and the capital of which may not be distributed during the initial period of no less than ten years. The Foundation agrees to follow these instructions;

(b) If no such direction in 3(a) is given to the Foundation and such gift is acknowledged by a receipt usable for income tax purposes by a donor, the said donation shall be treated as income of the Fund if the provisions of the Income Tax Act so require;

(c) In the case of gifts to the Fund which are not acknowledged by a receipt usable for income tax purposes and, unless otherwise designated by the donor, the Foundation shall treat such sums received as capital of the Fund;

(d) If a donor designates in writing that a gift or bequest to the Fund is to be used for specific purposes by the Library, the Foundation shall manage the Fund and make disbursements in accordance with the wishes of the donor;

(e) The Foundation may refuse to accept any gift or bequest to the Fund if it considers the purpose and/or conditions of the gift or bequest to be frivolous, unworkable, inefficient or the amount of the gift or bequest too small or too difficult to administer.

4. THE RECORDS OF THE FUND

The assets, liabilities, income, expenses, capital and distribution of the Fund shall be recorded separately on the books and records of the Foundation and shall be accounted for as a separate open-ended designated fund in the annual financial statements of the Foundation. The Foundation shall arrange with the auditors of the Foundation to have the annual audit include the records pertaining to the Fund. At any time the Library may request particulars of the Fund from the Foundation.

5. INVESTMENT

The Foundation shall invest the capital and any surplus income of the Fund and manage and administer it for the benefit of the Library. The Foundation, if it so desires, may combine the investments of the Fund with those of other designated and general funds of the Foundation into one investment pool for the purpose of more efficient and effective administration and control of the Foundation's investments in which event, the Library shall be credited with its proportionate share of income.

6. COSTS AND EXPENSES OF THE FUND

(a) The Foundation may deduct from the gross income of the Fund any direct costs or expenses attributable entirely to the Fund or to the Library;

(b) The Foundation may also allocate to the Fund the Library's share of the general and administrative expenses of the Foundation and any fee or other costs paid to a trust company or bank as custodian and/or manager of the investments of the Foundation. Unless otherwise agreed the share of administrative and general expenses that shall be allocated to the Fund shall be proportionate to the share that the gross income of the Fund for the year bears to the gross income of all the designated and general funds managed by the Foundation.

7. REQUESTS FOR PAYMENTS

The Library may from time to time, upon three months' notice, make requests in writing to the Foundation for payments from the capital of the Fund for the purposes of the Library, in which event the Foundation shall carry out such requests, but always subject to the directions of donors to the Fund which may restrict the time in which such capital of the Fund may be paid to the Library.

8. ACCUMULATION OF NET INCOME

The Library may, subject to the Accumulations Act, request the Foundation in writing to accumulate the net income in the Fund over a period of one or more years to be paid at a later time for specified purposes of the Library, and, provided the necessary permission is obtained from the Minister of National Revenue and from any other government authority having jurisdiction there over, the Foundation may accumulate such income and pay same as requested by the Library.

9. APPLICATION TO COURT

If the Board of the Foundation is satisfied that conditions are such as to render it impossible, impractical, inefficient or unwise to expend all or any part of the Fund's capital or income remaining from time to time, the Board may apply to the Court for direction to use the income or the capital of the Fund or both, for other purposes.

10. AMENDMENT

This Agreement may be amended by the consent of both parties.

IN WITNESS WHEREOF the parties have duly executed this Agreement this
19th day of February, 1981.

THE HAMILTON PUBLIC LIBRARY BOARD

per _____ Original signed by Alan Meiklejohn, Chairman

per _____ Original signed by Judith McAnanama, Chief Librarian

THE HAMILTON FOUNDATION

per _____ Original signed by Marnie Paikin, President

per _____ Original signed by C. K. MacGillivray, Executive Director



THIS AGREEMENT made this fifteenth day of October 1984.

B E T W E E N :

THE HAMILTON PUBLIC LIBRARY BOARD

Hereinafter called "the Library"

- and -

THE HAMILTON FOUNDATION

Hereinafter called "the Foundation"

WHEREAS the library has requested the Foundation to accept, hold, invest and administer certain funds from the Library's Special Gifts Fund;

AND WHEREAS the income and capital of "the fund" (as hereinafter defined) are to be used by the Library and whereas the income and capital of "the fund" (as hereinafter defined) are to be used by the Library to enable it to expand its present services, initiate new ones and enrich its resources for the community that are housed or headquartered in its Central Library, located at 55 York Blvd., Hamilton, Ontario, but no part of such income and capital may be used for normal operating expenses.

1. THE FUND

The Foundation shall create and set up a special capital fund as a designated fund to be known as "The Hamilton Public Library Central Library Special Gifts Fund", (hereinafter referred to as "the Fund").

2. THE RECORDS OF THE FUND

The assets, liabilities, income, expenses, capital and distribution of the Fund shall be recorded separately on the books and records of the Foundation and shall be accounted for as a separate open-ended designated fund in the annual financial statements of the Foundation. The Foundation shall arrange with the auditors of the Foundation to have the annual audit include the records pertaining to the Fund. At any time the Library may request particulars of the Fund from the Foundation.

3. INVESTMENT

The Foundation shall invest the capital and any surplus income of the Fund and manage and administer it for the benefit of the Library. The Foundation, if it so

desires, may combine the investments of the Fund with those of other designated and general funds of the Foundation into one investment pool for the purpose of more efficient and effective administration and control of the Foundation's investments in which event, the Library shall be credited with its proportionate share of income.

4. COSTS AND EXPENSES OF THE FUND

(a) The Foundation may deduct from the gross income of the Fund any direct costs or expenses attributable entirely to the Fund or to the Library;

(b) The Foundation may also allocate to the Fund the Library's share of the general and administrative expenses of the Foundation and any fee or other costs paid to a trust company or bank as custodian and/or manager of the investments of the Foundation. Unless otherwise agreed, the share of administrative and general expenses that shall be allocated to the Fund shall be proportionate to the share that the gross income of the Fund for the year bears to the gross income of all the designated and general funds managed by the Foundation.

5. REQUESTS FOR PAYMENTS

The Library may from time to time, upon three months' notice, make requests in writing to the Foundation for payments from the capital and/or income of the Fund for the purposes of the Library, in which event the Foundation shall carry out such requests.

6. APPLICATION TO COURT

If the Board of the Foundation is satisfied that conditions are such as to render it impossible, impractical, and/or inefficient for the Foundation to administer the fund in accordance with the provisions of this agreement, the Board may apply to the Court for appropriate directions.

7. AMENDMENT

This Agreement may be amended by the consent of both parties.

IN WITNESS WHEREOF the parties have duly executed this Agreement

this day of 1984.

THE HAMILTON PUBLIC LIBRARY BOARD
per Original signed by Tom Radigan, Board Chairman
per Original signed by Judith McAnanama, Chief Librarian

THE HAMILTON FOUNDATION
per Original signed by John C. Bothwell, President
per Original signed by Mary A. Simpson, Secretary

CLASSIFICATIONS OF RATING

Dominion Bond Rating Service (DBRS) - Bond Rating Classifications

- * **AAA** Provinces rated "AAA" have a budget surplus as well as occasional deficits, but have a cumulative budget surplus, or are trending that way. The economies are strong, government expenditures are under good control, and revenue growth is being generated by an improving economy, and not only by tax increases. **Near Perfection.**
- * **AA** Provinces rated "AA" are in deficit position, and also have cumulative budget deficits since confederation. The economies are showing above average growth. Expenditures are under reasonable control, and are growing at a level consistent with revenue. Revenue growth comes not only from higher tax rates, but mainly from an expanding economy. The various ratios calculated for the province must be above average, relative to other provinces. **Well Above Average**
- * **A** This is the most common rating category for Canadian provinces. Provinces with an "A" rating are experiencing continuous deficit, and have a growing cumulative budget deficit position. The economies are growing at a reasonable rates. Budget deficits are being contained by raising taxes, and only moderate attempts are being made to cut expenditures. Interest costs are growing in relation GDP and per capita. Capacity to raise future taxes still exists, but the options are becoming limited, and are not as clear cut as an "AA" rated government. **Up to High Average, Upper Medium Grade Quality**
- BBB** Province rated "BBB" have relatively higher budget deficits than "A" rated provinces, and the trend is negative. Cumulative deficits are growing, and it is difficult to control government expenditures. tax rates may be high, and there may be limited capacity to raise them. The tax base also may be limited. The economy may be sluggish, and interest costs from borrowing related to cumulative deficits are growing, which is raising the deficits. **Up to Low Average, Medium Grade Quality**
- BB** Provinces rated "BB" are mildly speculative risk, with large and growing deficits. Expenditures are rising quickly, and revenue growth may be restricted by the fact that high tax rates already exist. Interest costs from cumulative deficits are growing, and the economy is sluggish. **Mildly Speculative**

CLASSIFICATIONS OF RATING

Dominion Bond Rating Service (DBRS) - Bond Rating Classifications - Continued

- B Provinces rated "B" are moderately speculative, and the size of the deficit is higher than that of a "BB" rated province. Expenditures are high, and revenues are low and sluggish. Also, the economy is weak, and interest costs from cumulative deficits are high. **Moderately Speculative**
- CCC A "CCC" is highly speculative. The province has high cumulative deficit, a weak economy, expenditures are high, and revenue is sluggish due to already high tax rates and a limited tax base. **Highly Speculative**
- CC A "CC" rating indicates a province in default, where a province is unable to pay interest or principal on debt as specified. **Default**
- C A "C" rating is reserved for a second tier of indebtedness or junior claims on a province, where the senior indebtedness is rated "CC".

High or Low

In addition, DBRS ratings may be modified by the quotation "high" or "low" to indicate the relative standing within a rating classification.

DBRS Commercial Paper Classifications

- *
 - R1 Prime Credit
 - R2 Medium Grade Credit
 - R3 Below Medium grade Credit

Source: Dominion Bond Rating Service

CLASSIFICATIONS OF RATING

Canadian Bond Rating Service (CBRS) - Government Bond Ratings

*	AAA	Highest Quality
*	AA	Very good Quality
*	A	Good Quality
	BBB	Medium Grade Quality
	BB	Lower Medium Grade Quality
	B	Poor Quality
	C	Speculative
	D	Default
	Suspended	Rating Suspended

Source: Canadian Bond Rating Service

CBRS Commercial Paper Ratings

*	A1+	highest quality
*	A1	high quality
*	A2	strong quality
	A3	adequate but vulnerable
	A4	undergoing substantial change

* *Recommended eligible investments under the City of Hamilton guidelines.*

SUMMARY OF PROPOSED INVESTMENT GUIDELINES

<u>Issuer / Guarantor of Securities</u>	<u>Portfolio Size Limitations</u>		<u>Minimum Quality Requirement</u>	<u>Limit of Individual Institution</u>	<u>Term Restriction</u>
	<u>Minimum</u>	<u>Maximum</u>			
Federal Government	10%	50%	R-1	50%	NONE
Provincial Government:					
Ontario	5%	15%	R-1	15%	NONE
Other (1)	0%	15%	R-1	10%	3 Years
Municipal Government:					
Ontario (2)	0%	10%	AA	5%	10 Years
Other (3)	0%	5%	AA	3%	3 Years
Association of Municipalities of Ontario (AMO):					
Local Authority Services Ltd. (4)	0%	10%		10%	3 Years
Municipal Finance Officers' Association of Ontario:					
CHUMS Financing Corp'n (4)	0%	10%	R-1 (low)/A	10%	Restriction at various stages
Financial Institutions:					
Six Schedule I Banks	35%	80%	R-1 (l)/A(h)	25%	5 Years
Schedule II Banks and Trust Corporations	0%	25%	R-1 (m)/AA	10%	3 Years

- Note: (1) Investments with any province other than Ontario should not exceed 10% of the portfolio up to a maximum of \$10,000,000.
- (2) Investments with any Ontario municipality should not exceed 5% of the portfolio up to a maximum of \$3,000,000.
- (3) Investment with any municipality other than Ontario should not exceed 3% of the portfolio up to a maximum of \$2,000,000 in total up to a maximum of \$5,000,000.
- (4) Investments should not exceed 10% of the Issuer's portfolio at the date of purchase.
- (5) Overall portfolio limit - A for long term and R-1 (low) for short term or better.

LIST OF ELIGIBLE INSTITUTIONS

Institutions

Schedule I Banks

Bank of Montreal
Canadian Imperial Bank of Commerce
National Bank of Canada
The Bank of Nova Scotia
The Royal Bank of Canada
The Toronto Dominion Bank

Trust Companies

Canada Trustco Mortgage Company
Montreal Trustco Inc.
National Trustco Inc.

Schedule II Banks

ABN AMRO Bank Canada
Bank of America Canada
ANZ Bank Canada
Banca Commerciale Italiana of Canada
Banca Nazionale del Lavoro of Canada
Banque Nationale de Paris (Canada)
Barclays Bank Canada
B.T. Bank of Canada
Chemical Bank of Canada
Citibank Canada and Citicorp Ltd.
Credit Lyonnais Canada
Credit Suisse Canada
Dai-Ichi Kangyo Bank (Canada)
Daiwa Bank Canada
Deutsche Bank (Canada)
Dresdner Bank Canada
First Interstate Bank of Canada
Fuji Bank Canada
Hongkong Bank of Canada

LIST OF ELIGIBLE INSTITUTIONS

Institutions

Schedule II Banks

Industrial Bank of Japan (Canada)
Laurentian Bank of Canada
Mellon Bank Canada
Mitsubishi Bank of Canada
Morgan Bank of Canada
National Westminster Bank of Canada
NBD Bank, Canada
Paribas Bank of Canada
Sakura Bank (Canada)
Sanwa Bank Canada
Sumitomo Bank of Canada
Swiss Bank Corporation (Canada)
Tokai Bank Canada
The Bank of Tokyo Canada
Union Bank of Switzerland (Canada)

Federal and Provincial Governments

Government of Canada
Province of British Columbia
Province of Alberta
Province of Saskatchewan⁽¹⁾
Province of Manitoba
Province of Ontario
Province of Quebec
Province of New Brunswick
Province of Nova Scotia
Province of Prince Edward Island
Province of Newfoundland⁽¹⁾

Note: (1) The City will not invest its funds with the Province of Saskatchewan and Province of Newfoundland until the Credit rating improves.

LIST OF ELIGIBLE INSTITUTIONS

Ontario Municipalities

Durham (Regional Municipality)
Guelph
Halton (Regional Municipality)
Hamilton-Wentworth (Regional Municipality)
London
Metropolitan Separate School Board
Niagara (Regional Municipality)
Ottawa-Carlton (Regional Municipality)
Peel (Regional Municipality)
Toronto (Metropolitan Area)
Waterloo Regional Municipality
York (Regional Municipality)
York Region Roman Catholic Separate School Board

Other Canadian Municipalities

Calgary, Alberta
Charlottetown, Prince Edward Island
Dartmouth, Nova Scotia
Edmonton, Alberta
Halifax, Nova Scotia
Municipal Finance Authority of British Columbia
Regina, Saskatchewan
Saskatoon, Saskatchewan
Saint John, New Brunswick
Westmount, Quebec
Winnipeg, Manitoba
Vancouver, British Columbia

Bill No. H-66

THE CORPORATION OF THE CITY OF HAMILTON

BY-LAW NO. 93 - 266

**To Authorize the Temporary Borrowing of Monies to Meet Current
Expenditures Pending Receipt of Current Revenues.**

WHEREAS section 187(1) of the Municipal Act, R.S.O. 1990, as amended, provides as follows:

"A council may by by-law either before or after the passing of the by-law for imposing the rates for the current year authorize the head and treasurer to borrow from time to time by way of promissory note or banker's acceptance such sums as the council considers necessary to meet, until the taxes are collected and other revenues are received, the current expenditures of the corporation for the year, including the amounts required for sinking fund, principal and interest falling due within the year upon any debt of the corporation, school purposes, special rates purposes, and for any board, commission or body and other purposes for which the corporation is required by law to provide";

AND WHEREAS Section 187 (2) of the said Act, as amended by the Municipal Statute Law Amendment Act, S.O. 1992, c. 15 provides as follows:

"The amount that may be borrowed at any one time for the purposes mentioned in subsection (1), together with the total of any similar borrowings that have not been repaid, shall not, except with the approval of the Ontario Municipal Board, exceed from January 1st to September 30th of the year, 50 percent of the total, and from October 1st to December 31st, 25% of the total of the estimated revenues of the corporation as set forth in the estimates adopted for the year";

AND WHEREAS the Council of the Corporation of the City of Hamilton (hereinafter called the "Municipality") in adopting Item 4 of the 23rd Report of the Finance and Administration Committee at its meeting held on 9th day of December 1993 authorized the temporary borrowing of monies to meet current budget expenditures for the year 1994 pending receipt of current revenues;

NOW THEREFORE the Council of The Corporation of the City of Hamilton hereby enacts as follows:

1. (1) The Mayor and Treasurer are hereby authorized on behalf of the Corporation of the City of Hamilton to borrow from time to time by way of promissory note from the **CANADIAN IMPERIAL BANK OF COMMERCE** a sum or sums of monies not exceeding at any one time the amounts specified in subsection (2) to pay off temporary bank overdrafts for the current expenditures of the Corporation for the current year 1994, and to give to the Bank on behalf of the Corporation a promissory note or notes, sealed with the Corporate Seal and signed by the Mayor and Treasurer, for the monies so borrowed, together with interest at such rate as may be agreed upon from time to time with the Bank.

(2) The amount of monies that may be borrowed at any one time for the purposes of subsection (1), together with the total of any similar borrowings that have not been repaid, shall not, except with the approval of the Ontario Municipal Board, exceed from January 1st to September 30th of the year, 50 percent of the total, and from October 1st to December 31st, 25% of the total of the estimated revenues of the corporation as set forth in the estimates adopted for the year.
2. (1) Until estimates of revenue of the Corporation for the 1994 year are adopted, borrowing shall be limited to the estimated revenues of the Corporation as set forth in the estimates adopted for the next preceding year.

(2) The total estimated revenues of the Corporation, including the amounts levied for Region and Education purposes, adopted for the year 1993 are Four Hundred and Eight-Six Million, Three Hundred and Eight Thousand, Four Hundred and Thirty Dollars (\$486,308,430.00).
3. All sums borrowed pursuant to the authority of this by-law, together with any and all similar borrowings in the current year and in previous years that have not been repaid shall, together with interest therein, be a charge upon the whole of the revenues of the Corporation for the current year and for all preceding years, as and when such revenues are collected or received.
4. The Treasurer shall, and is hereby authorized and directed to, apply in payment of all sums borrowed pursuant to this by-law, together with interest therein, all of the monies thereafter collected or received for the current and proceeding years, either on account or realized in respect of taxes levied for the current year and preceding years or from any other sources which may lawfully be applied for such purpose.

5. This by-law shall come into force and effect on the day of third reading and enactment, and shall remain in force and effect until December 31, 1993.
6. By-law 93-129 is hereby repealed.

PASSED this 14th day of December A.D. 1993

Original signed by J. Schatz
City Clerk

Original signed by R. Morrow
Mayor

(1993) 1 R.F.A.C. 5, December 9

The City of Hamilton
Treasury

Exhibit "A"

DAILY DEPOSITS

Date: _____

Time: _____

Previous day's "Specials" deposited
but not reported (Relatable to
opening Bank Balance): _____

Cashiers receipts from Previous
day to be deposited today (Brink's
Deposit exclusive of "Specials"):

Cashier No. 1	_____
Cashier No. 2	_____
Cashier No. 3	_____
Cashier No. 4	_____
Mail Room Cashier No. 8	_____
Head Cashier	_____

Current Day's Estimate: _____

TOTAL

(Amount reported to Manager of Budgets at 9:00 a.m.) _____

Additional Specials (9:00 a.m. to 11:00 a.m.): _____

Sub-Total

(Amount reported to Manager of Budgets at 11:00 a.m.) _____

Additional Specials (11:00 a.m. to 4:00 p.m.): _____

Sub-Total

(Amount reported to Manager of Budgets at 4:00 p.m.) _____

GRAND TOTAL

NRA/WGG/JB/23-Apr-93

ACCESS PLUS:

Access Plus is a money market instrument issued at a discount by a public sector corporation, unconditionally guaranteed by the National Bank of Canada and sold on the secondary market with the same attributes as a major bankers acceptances.

The unconditional guarantee of the National Bank is applicable if, and only if, the subscriber defaults. Under this guarantee the National Bank will pay for the note at maturity. The National Bank is not the principal debtor of the note. The unconditional guarantee is only conditional as to the default of the subscriber of the note. The National Bank will honour its signature if the subscriber defaults and will pay the amount of the note to its bearer.

The principal goal of Access Plus is to allow public sector corporations to benefit from better interest rates in the Canadian money market, which would not be otherwise available to them. The eligible borrowers are: Federal and Provincial governments and their subsidiaries, municipalities and cities, school commissions, hospitals, universities and social service centres.

These securities are sold at a rate similar to major bank bankers acceptances. The National Bank will always guarantee a competitive secondary market for these notes.

BANKERS ACCEPTANCE (CANADA)

A Bankers' Acceptance ("BA") is a bearer draft issued by a corporation or a government entity. BA's may be denominated in Canadian or United States dollars, and are issued on a discounted basis to mature at par value. Available maturities typically range from one month to one year, in amounts of \$100,000 and greater.

A Canadian chartered bank "accepts" each BA, and is compensated for this guarantee by way of a stamping fee. This fee is negotiated between the borrower and the chartered bank involved.

Product Availability: BA usage has grown considerably in the past decade. During this period, corporations denied access to the commercial paper market due to marginal credit ratings, continued to borrow through the money market by issuing BA's.

Credit Quality: BA's are accorded the same credit rating as that of the accepting bank, allowing the corporate or government borrower to obtain funds at a lower rate of interest than it would achieve in the absence of an acceptance.

Market Characteristics: The rapid increase in the number of chartered banks since 1980 reflects changes made to the Bank Act, that permitted foreign banks to obtain a federal bank charter. This increase has led to a larger and more competitive BA market in Canada. Many parent banks of the new Canadian chartered banks have a long history of accepting BA's or similar instruments in their own markets, and now offer this service to Canadian borrowers. However, the major Canadian chartered banks still account for a dominant share of the BA's outstanding in Canada.

Settlement: BA's are settled on a cash or regular basis, with delivery to the investor's custodian bank against payment.

BANK SWAP DEPOSITS

Bank Swap Deposits are not too common to the municipal investor because the decision to buy must be made quickly plus the fact that they are arranged on a transaction basis making the instrument totally non-liquid until maturity. In this investment, Canadian dollars are converted into U.S. dollars which are then used to purchase a U.S. dollar bank certificate of deposit. At the same time as the agreement is consummated, Canadian dollars are purchased in the forward money market as a hedge against any future exchange rate fluctuations. While the conversion process is rather complex, this is handled completely by the chartered bank or investment dealer. The Canadian investor is quoted on all inclusive yield guaranteed by the bank, which includes both the U.S. term rate and the yield effect of the swap in currencies. This instrument may be obtainable in \$100,000 denominations, but generally requires a much higher investment level. At certain times, these deposits may be more attractive than the return available from domestic investments; therefore, when large cash surpluses are available this form of investment should be reviewed.

BASIS POINT

A basis point represents 1/100th of one percent, i.e. the digits to the right of the decimal point in, say, 10.25 per cent, represent 25 basis points.

BEARER DEPOSIT NOTES

Bearer Deposit Notes are issued periodically by chartered banks in multiples of \$100,000 being secured by the bank's general credit. The Notes are sold at a discount to mature at par, with terms ranging from 7 to 364 days as determined by the issuing bank, the normal arrangement is that these Bearer Notes are acquired by the various investment dealers or other chartered banks who handle the trading to third parties. The municipality can thereby arrange the term of investment to suit its availability of funds irrespective of the maturity date of the Note (dealers frequently enter into a buy back or repurchase agreement to accommodate shorter terms of the investor).

CANADA DEPOSIT INSURANCE CORPORATION

The Canada Deposit Insurance Corporation (CDIC) is a Crown Corporation established in 1967 by an Act of the Parliament of Canada. The purpose of the Corporation is to provide, for the benefit of persons having deposits with member institutions, insurance against the loss of deposits, in whole or in part, because of the insolvency of a member institution.

Membership in the Corporation is restricted to banks, trust companies and mortgage loan companies. It is mandatory that federally incorporated companies be members of the Corporation but provincially incorporated companies must submit applications and are accepted only if the government of the province concerned has approved the application and if certain standards and conditions are met.

The Corporation insures savings and chequing accounts, money orders, deposit receipts, guaranteed investment certificates, debentures and certain other obligations. Deposit insurance does not apply to investments in stocks, bonds, mortgages, or mutual funds.

The Canada Deposit Insurance Corporation is empowered to insure deposits up to \$60,000 per person, per institution. This amount applies to the combined total of principal and interest.

It is important to note that to be insurable, any term deposit must be redeemable either on demand or, on or before the expiration of five years from the date of deposit. The deposit instrument and the records of the member institution must specify the person entitled to repayment of the moneys.

Deposit insurance applies automatically to any insurable deposit with any member institution at the time the deposit is made. There is no charge to the depositor for deposit insurance. The premiums are paid by the member institution. Deposit insurance does not cover the contents of safety deposit boxes and securities held for safekeeping.

COMMERCIAL PAPER

Short-term negotiable promissory notes issued by major corporations are called commercial paper. It offers investors a higher yield than many of our short-term investment products. This investment carries the credit rating and risk of the issuing corporation. The investment is not guaranteed by any Bank. The higher interest rate investors generally earn on commercial paper reflects this risk. The City can not buy this paper for its investment portfolio of general fund under the *Municipal Act*.

The minimum transaction is \$100,000, increasing by \$100,000 increments thereafter. Terms are generally 1-90 days. Like Bankers' Acceptances, Commercial Paper is purchased at a discount. US Pay Commercial Paper is also available.

CURRENT YIELD

The ratio of interest to the actual market price of the bond stated as a percentage, e.g. if the income is \$50 a year on an investment with a value of \$1,100, the current yield is 4.545%.

DEBENTURES

Technically, debentures are debt securities ordinarily not secured by a mortgage against fixed assets or other property. Both governments and corporations may issue debentures. In fact, all government bonds are really debentures in the sense that they are promises to pay but are not secured by a mortgage on the government's assets (Refer to Provincial and Canada Bonds).

DISCOUNT

The amount by which a bond sells below its face value. For example, a \$1,000 bond purchased for \$1,000 is said to have been bought "at face value". A bond purchased below its face value is said to have been bought "at a discount" and if purchased for more than its face value is said to have been bought "at a premium".

FACE (PAR) VALUE

The value of a security as expressed on the face of the certificate without consideration to any premium or discount, unless the value is otherwise specified by the issuing company. It represents the dollar value to which the interest rate is applied. Face value is no indication of market value.

GOVERNMENT OF CANADA MARKETABLE BONDS

Description:

- semi-annual, interest bearing instruments available in coupon bearer or fully registered form; fixed interest coupon rates are set at the time of issue; yields on outstanding bond issues may rise and fall daily as purchase and sale prices of unmatured bonds are determined in the open market according to the level of supply and demand; issued by the Government of Canada
- minimum investment is \$1,000 for terms of 1 to 30 years
- G/C Bonds are not redeemable prior to maturity but may be sold on the secondary market through.

The market:

- approximately \$169.5 billion G/C bonds outstanding as of February 1993
- yield is usually the lowest of all other issues of marketable domestic bonds of similar maturity since G/C marketable bonds are the highest quality Canadian bonds available
- withholding tax not applicable to non-residents of Canada
- no restrictions on investment by foreign depositors

Procedures:

- settlement normally 5 business days, however, for new issues, or at customer request, settlement dates may be varied by mutual agreement

Advantages:

- rates current at time of purchase may be locked in for extended periods, bonds are continuously available in the open market and may be bought and sold at market prices usually upon short notice

Disadvantages:

- yield lower than other Canadian bonds of comparable maturity, market prices in the event of sale prior to maturity may vary substantially from the purchase price resulting in a risk of capital loss in the market price of an unmatured bond (this is more pronounced in the longer term maturities)

GOVERNMENT OF CANADA TREASURY BILLS

These short-term obligations of the federal government are the lowest-risk instrument the Royal Bank of Canada offers. The comparatively lower interest rate they earn reflects the low risk. Like Bankers' Acceptances, T-Bills are purchased at a discount. The investor is paid the par value at maturity. The minimum transaction is \$25,000, for terms of 90 days to one year (\$100,000 for terms of 30 days and beyond). Maturity falls on a Friday. The low risk and small transaction size make Federal T-Bills the favoured instrument among smaller investors.

HYPOTHEC

Right of a creditor established by law or agreement over securities pledged by a debtor.

HYPOTHECATE

To pledge securities as collateral for a loan.

INTEREST RATE

This is the price of borrowing or lending money, generally expressed as an annual percentage rate. It is almost always stated on an annual basis. A note promising to pay \$1,000 at the end of a year with an additional sum of \$150 bears an interest rate of 15 per cent.

THE INVESTMENT DEALER

The primary function of an investment dealer is to bring together those with capital and those in need of capital. In performing the functions of underwriting and distributing new issues of securities, dealers generally act as principals in purchasing the securities, reselling them at an agreed price to investors including individuals, corporations and financial intermediaries. In this way the capital requirements of the issuer are satisfied. The principal types of financing in which dealers engage are:

- (i) a negotiated public offering, where the issuer and underwriter negotiate the type and terms of the security to be offered to the public (major provincial, municipal and corporate issues are usually in this category);
- (ii) a private placement, where the dealer acts as agent for the issuer and negotiates a sale to one or more buyers, usually institutional investors;

- (iii) the purchase of Government of Canada bonds from the Bank of Canada and the resale to investors on terms set by the Bank as agent for the Government; and
- (iv) the distribution, as agents, of a new issue of securities; this method is used for Canada Savings Bonds, Provincial Bonds, Treasury Bills and most money-market instruments. In the process, the investment dealer usually acts as financial adviser to the company or government body requiring the capital funds and has a good deal to do with the creation of the new securities.

When an investment dealer agrees to obtain capital funds for a government body or a company by selling an issue of their securities, he is contractually obliged to provide these funds even though his selling efforts may fail. His obligation is written into an underwriting agreement which under normal conditions is the issuer's assurance that the dealer is bound to take up and pay for the securities at a specified time and price.

LIQUIDITY

A measure of the ability to convert a security into cash promptly with minimum risk of loss of principal or accrued interest. Federal and provincial bonds which trade on a daily basis are generally considered to be highly liquid.

MARKET (VALUE) PRICE

The price at which a security is selling in the open market.

MATURITY

The date on which the principal or stated value of an investment falls due and may be realized.

PREMIUM

The amount by which a security may sell above its face value. In the case of a new issue of bonds, premium is the amount the market price rises over the face value.

PROVINCIAL GOVERNMENT SHORT-TERM DEBT INSTRUMENTS

Provincial governments, like the federal government, have the authority to borrow short term money. The majority of their borrowing is done through the bond market; however, over the last 10 years many provinces have increased their short term borrowing programs. Larger provincial budgets, special lending programs and great interest rate risk management are primary reasons for the increase in short term debt. Each province's credit standing is rated by DBRS Moody's and Standard & Poor's.

The provinces issue treasury bills in a fashion similar to the Government of Canada through a weekly auction process. Provincial treasury bills are generally issued for a term of 91 days although some have initiated 182 day maturities as well. Investment dealers and banks tender for these treasury bills and they are sold at a discount to mature at par.

In order to increase the flexibility of provincial short term borrowing many governments now issue promissory notes. They are issued as required with investment leaders and banks acting as intermediary. These notes are issued in a maturity range from 1 to 365 days and are sold on a discount basis. Several provincial crown corporations issue short term notes that carry the full guarantee of the provincial government. These notes are issued in both U.S. and Canadian dollars.

Under the Constitution of Canada, each provincial legislature has exclusive authority to borrow money on the sole credit of that province and authority to raise revenue through direct taxation within its territorial limits.

The provinces rely on Short-Term note and Treasury Bill borrowing programs to finance short-term requirements. Some municipalities, utilities and provincial Crown corporations issue short-term notes. All provincial Crown corporations carry the full provincial government guarantee.

Typically, Provincial Bills and Notes provide higher rates than Government of Canada Treasury Bills. There is an active secondary market in Provincial Bills and liquidity varies according to the size of the outstanding issuance.

RISK

This is a measure of the potential for loss of principal and/or accrued interest on an investment. In exchange for a return on investment, the investor may expose assets to possible losses. Risk is the probability or possibility of such losses.

SHORT-TERM NOTE ACQUISITION & PLACEMENT "SNAP"

This is commercial paper issued by a major corporation and purchased by the Royal Bank of Canada. It is sold to investors in more flexible increments than most other investment products. Commercial paper carries the risk and credit standing of the issuing corporation. There is no Bank guarantee. This product is subject to availability. The City can not buy this paper for its investment portfolio of general fund under the *Municipal Act*.

The minimum investment is \$100,000 and it is available in \$1,000 increments thereafter. The interest rate is very attractive, and you have the flexibility of choosing the precise amount to invest.

SNAP commercial paper may only be purchased by investors who do not require physical delivery. The commercial paper will be held in bank safekeeping.

Note: Due to regulatory constraints this product is not available for sale to investors in Newfoundland or Prince Edward Island. Minimum purchase in Saskatchewan is \$150,000.

STRIP BONDS (Residuals & Coupons)

Strip bonds or STRIPS (Strips is an acronym for Separately Traded Residual and Interest Payments) are created by removing the coupons from a bond certificate and separating each coupon from every other coupon.

Once the coupons have been detached from the bond the principal portion is referred to as the residual -- a non-interest bearing promise to pay at maturity, i.e. a zero coupon bond.

After being stripped off the bond certificate, each individual coupon is also a non-interest bearing promise to pay at the coupon's maturity, i.e. a zero coupon bond.

Characteristics:

- Negotiable;
- Active Secondary Market discount basis;
- No non-resident withholding tax;
- Maturities and supply are only limited by the bonds available to be stripped.
- Residuals available in denominations of \$1,000 (subject to \$100,000 minimum at major banks);
- Denomination of coupons is determined by the coupon rate and principal amount of the bond stripped;
- Settlement is through the Canadian Depository for Securities (CDS) Book Based System (BBS) - no physical delivery.

Pricing: Under 1 year - Annual basis with an Actual/365 day count.
 Over 1 year - Semi-annual basis with an Actual/365 day count.
 - Can also be expressed on an Annual basis with an
 Actual/365 day count for easy comparison to money
 market rates.

SURPLUS MONEYS

This refers to moneys not required immediately by the municipality.

YIELD-TO-MATURITY

The average annual return on an investment based on the interest rate, purchase price and length of time to maturity. It differs from current yield in that it takes into consideration the increase to the face value of an investment bought at a discount and the decrease to the face value of an investment bought at a premium. For example, suppose that you buy a 10-year bond at \$950. You would receive not only \$100 a year (assuming the interest rate is 10 per cent) but also a capital appreciation of \$50 over the 10-year period, or an average of \$105 per year. Thus, the average return per year would be \$105 and your average yield to maturity would be $105/950$, or 11.05%.

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